

ECONOMIC CLUB OF NEW YORK
7 December 1977

Mr. Chairman, Mr. Midshipman Jay, Ambassador Richards, ladies and gentlemen, as the Ambassador I too am honored to be here and with one exception I am pleased to be here. The exception is that I believe it shows an amazing lack of good judgement where a simple sailor turned intelligence officer to come to talk to an economic club and then to follow on the podium one of the world's leading economists. Mr. Ambassador, we are all stimulated by your remarks and very grateful for them. What I would like to try to do is to talk about the international economic scene as perceived from an intelligence view point and specifically from the increasing interplay today in your American intelligence community with the international economic picture. When thirty years ago last September the Central Intelligence Agency was founded we were an independent, predominant world economic power. The focus of intelligence was largely in the military and in the political sphere. I need not say today how interdependent we have become economically. But I can say that the intelligence world is trying to keep pace, trying to shift its focus, not neglecting the military nor the political, but increasing attention in the economic sphere. Some of the major efforts of this past year or so have been in this area, and let me mention just a few as examples.

In March we published a study of The International Energy Prospects for the Next Seven or Eight Years. What

we projected was that the world as a whole is not going to be able, in our opinion, to pump out of the ground as much oil as it would like to burn on the surface. We have not said that the world's reserves of oil are running out and that the lamps and candles will not burn in the future. We have simply said that it will be difficult to find a way around either a major conservation or major pressure on prices of energy.

A few months after that we produced another study about The World Steel Situation. We pointed out there is over capacity in all of the major steel-producing countries. We operate at some 78% of capacity; the Japanese at 72%, the European Economic Community at 60%; a country like Sweden at only 48%. It is our view that in the next four to five years the increases expected and demand for steel are not going to fill those excess capacities. In part, because there are lesser developed countries in the world today who are continuing to add to their steel-making capacity. We expect that the exports to these lesser developed countries are going to decrease by 60% in the next three or four years as some of those countries like South Korea, Mexico, Brazil, turn into exporters rather than importers of steel.

Early in the summer we produced another public study on International Terrorism, a subject which I am afraid must be of concern to many of you here engaging in international business. We have to project, of course, that over the last

four or five years the amount of bombing, arson, terrorism of one sort or another, has been on the increase; 400% in the last four years increase in bombing; 160% increase in arson in the last year. Unfortunately, the number of incidents involving United States citizens and firms abroad has increased from two our of five in 1975 to three our of five today. We produced this study in the hope that it would also have particular value to international businesses and we tried to make it particularly available by issuing through the Department of Commerce to their contacts in the business community.

In July, we published still another public study on The Outlook for the Major Economy of the Communist World, the Soviet Union. We have made this kind of study periodically and heretofore we have felt that the Soviets had the capability with their economy to achieve three principal goals: First, to continue their high accent on military strength towards achieving parity with us; second, to improve, if not dramatically, the quality of life in the Soviet Union; and third, to continue to infuse enough new capital into their economy to have it grow at a reasonable rate. Our review this last summer was startling in its change to us. We happen to believe that sometime in the next four or five years the Soviet economy is in for a more bleak prospect than at any time since the death of Stalin. Why? Because the Soviets have maintained a

policy of sustaining productivity, largely by continually increasing their infusions of capital and labor, and we think they are coming to the end of the line. First, because in the 1960s they happen to have had a very low birth rate. In the 1980s the rate of growth of their labor force is going to drop from a present 1.5% a year to about .5%. Some of that is in the central Asian area where it is tough to get them down off the farm and into the cities. As far as capital, today, as many of the rest of us, they are facing the prospect of going and looking for resources that are more and more difficult, more and more expensive. Iron ore is further into Siberia. Our energy study particularly emphasized the fact that the Soviets are not developing the reserves of petroleum at the correct ratio for their current production. They are simply putting the emphasis on today. Even then, some of the ways in which they are extracting the oil like excessive water flooding is going to hurt their long-term reserve position.

Where does this leave them? Well, it seems to me it leaves them with some difficult, pragmatic choices not far ahead - maybe at the turn of this decade. For instance, can they continue to afford the same large military force when they are manpower short? Can they continue to afford the same investment in military power? Can they continue to afford their promised delivery of a 1.6 million barrels of oil a day to their Eastern European satellites? Will they

have to enter the foreign exchange market and borrow more in order to obtain the hard currency to sustain the infusions of western technology that are helping to keep their economy moving ahead. Let's look interestingly at the high probability that by the time these decisions are upon them, they will be confronted with a major change in leadership. None of us can really speculate on how that country will effect a change of leadership. I am not saying that they will not make the right decisions. But I am saying that that may be a difficult time to take difficult decisions. They may do it very well, and they may make the sacrifices that are necessary and come out fine. But it is going to be of great interest to each of us how they do it. If they decrease the size of their armed forces, it surely has an impact on our level of investment in ours. If they don't deliver oil in great quantity to Eastern Europe, what impact will it have on stability there? If they enter the world market for borrowing of hard currency in large quantities, what will our policy and our reaction be? I can't give you answers to these and I can't even, of course, assure you that our basic analysis is going to hold up. I can only say we have done our best, and that we hope in the process of sharing these views with you the public, we are at least helping to focus national debate on the right issues.

In addition, in the process of sharing with the public, we are gaining stimulus for ourselves and assurance that we

are not going down completely deadend tracks. Now if it surprises you, that an intelligence officer is standing here suggesting that he wants more dialogue with the public, it is new. It is not the tradition of intelligence to want to be as open as possible and to share as much as possible. The tradition clearly is one of maximum secrecy. But, when you look at this information on economics in the international sphere and see how much of it can be made available, and when you look at how valuable it could be to the country, one has to give some consideration to a policy of openness. So, today what we do is we complete a major study or estimate we look at it and say, whether it is classified SECRET or TOP SECRET or destroy before reading, can we extract from this those elements that are essential to protecting the sources of how we got the information or that information which is uniquely valuable to our decision makers and still have enough substance left to be of value to you, the public. If the answer is yes, we will publish and make it available through the Government Printing Office.

Now, let me say this. I don't want to exaggerate, I don't want to overheat your appetites, there is no way we can share everything; there is no way we can be completely open. So much of what we have to do in intelligence cannot be done if it is not done in secret. But in balance I would say, that a policy of greater openness, under control, can in fact help us protect our secrets. Mr. Ambassador, it is reputed

hat Winston Chruchill once said that if everything is secret nothing is secret. We hope by decreasing the corpus of classified information to engender a greater respect for that which remains. Ladies and gentlemen, there is not today in our country sufficient respect for that which is properly classified and withheld from the public for a good cause. I am in the papers today with respect to a young man, a disaffected member of the Central Intelligence Agency who has recently published a book on the Agency's activities in Vietnam without fulfilling either his oath, or his personal promise to me to submit the book for a security review. And I suggest to you that a continuation of this Ellsberg, Sneed syndrome has a logical extension only that each one of us, each of the 215 million Americans is to be authorized to declassify information. We cannot tolerate that - it is nothing but chaos. I believe we have come far enough from Watergate that it is time for the public to begin to place a modicum of confidence again in its elected officials and the public servants whom they appoint. Now I am not asking you just to trust us blindly because secrecy is a dangerous thing and it must be treated very carefully. There is no way we can have complete public oversight of our secrecy. So what we are evolving in this country in addition to openness on the one hand in intelligence, is greater oversight and control on the other - a system of checks and balances analogous to our entire governmental process.

The first surrogate for public oversight is the President of the United States, and the second is the Vice President. I can assure you today that they take a very active and positive concern on intelligence and that I keep them informed of what we are doing fully and regularly.

Another new surrogate for public oversight are the Intelligence Committees of the Senate which we have had for a year and a half, and of the House of Representatives which we have had for three months. These are excellent organizations for both overseeing my activities and for being a sounding board to whom I can turn to find out what the American public wants, expects and demands of its intelligence operation.

I believe we are entering a period of two or three years in which an entirely new model of intelligence, an American model, will emerge. A model in which we find a balance between openness on the one hand and preservation of necessary secrecy on the other; and oversight, control on the one hand and sufficient initiative and risk taking on the other to satisfy the legitimate needs of our country. As this evolves, as these rules, these surrogates for oversight settle down into a process, which I am optimistic that is going to be done, and it is going to be done properly, we are going to need the understanding and the support of you, the American public. That is why I am grateful for your concern and your interest as evidenced in asking me to be with you tonight. Thank you.

QUESTIONS AND ANSWERS - ECONOMIC CLUB OF NEW YORK - 7 December 1977

Question: for me, let me say that having had some significant contact with the process by which the intelligence is acquired, the depth of study that goes into the analytic and estimating process, the dedication of the staff involved, I have come to know It is not easy to me to quaintly ask some critical questions and yet they must be asked. The two studies you referred to or two of the studies you referred to that are of particular significance in this evening's discussion - The Outlook for Soviet Oil Production and the rather remarkable Soviet Economic Prospects and Problems. Both have a common thread. They both anticipate, and in the very short term, some very significant difficulties. The difficulties but not completely so. As in the case of, for example, the outlook for Soviet oil the expectations are as the Agency has presented them. The Soviet oil production will be in the early 1980s and sharply drop off immediately thereafter. And if this fact becomes one of the elements contributing to a very bleak and also rather short term, aggravated outlook for the entire Soviet economy. My question is this, there has been disappointments in past estimates; some have been wrong. We have had slings in our

anticipation of what the Soviet economy will do. Our expectation now is a little bit bleak. What reason is there to believe that these estimates will be as accurate as they are closely reasoned?

Answer: One of the advantages I mentioned of making the estimates like this public, is that they are then subjected to your scrutiny. We got a lot of adverse press on the energy study when it came out. I personally wrote to each sensible critic and asked for further elaboration on their positions of doubt. Those who responded with reasonable replies, I invited to come and spend the day at CIA. I personally met with them. Our analysts met with them and we went over it up and down. We have now established more contact with people of that nature - think tanks, oil companies, independent oil consultants. We are trying very hard to stay abreast of what they think, and their good criticisms. And their criticisms lead me to now have a better feel for where to focus future intelligence efforts to find out if we are right or if we are wrong. If we are wrong, I will be happy to admit it because we never will be 100% right

Question: Admiral Turner, perhaps I can follow up on that point You mentioned in your talk that the CIA's estimate did not have so much to do with actual resources but with how much oil and how much gas we can pull out of the ground. Do you mean by that you don't feel that we are exhausting, that CIA doesn't feel, we are exhausting the world's resources that it is simply a matter of capital expenditures?

Answer: George, all I am saying is that we only looked as far as 1985 because the glass becomes pretty murky beyond that as to what reserves will be uncovered and you can get into infinite debate and dispute. But we did think it was quite relevant to forecast that with the amount of drilling equipment existing today and the known reserves that are being employed, and the time it takes from discovery of an oil field until actual production, and the rate of growth of demand that at least until about 1985 we could predict that the demand curve was going to pass the supply. We are not really capable at this point of looking much further than that and seeing when those reserves will dry up to the point where we must simply shift to alternatives.

Question: I wonder if I may ask the question of Ambassador James
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Question: It appears that there has been a misestimate of the nature of the Soviet this year. This will have been twice in five years. There appears to be a significant miscalculation of the prospects of Soviet food production. In each case in addition, the Soviet Union appears to have been quite successful in hiding its deficiency for time sufficient to replenish its stocks at favorable prices with benefits which did not accrue by and large to the U.S. farmer. There are two questions: ~~to~~

This an area in which CIA has properly pride in itself - the ability to estimate food production. Is there a satisfactory explanation for two failures in and secondly is there not an associated failure in the inability to perceive the Soviet's purchase of grain during the period when it was still believed their harvest was going to be large?

Answer: There is no adequate excuse in missing the target. We have pride that in these five years since the 1972 Great Grain Robbery, we have developed techniques for estimating the harvest of a closed society. But we are not infalible and if Mr. Brezhnev's prediction is right we were off by 10%, and most everyone in the country believes Mr. Brezhnev more than us. I am kidding, he is probably being very honest. We find than even in the United States it is hard to hit 5% when you have all the data. We think we think we missed this year because/an exceptionally wet September of in the Soviet Union. With.....I only pledge to you to keep trying better. But with regard to your second question, we did not fail to perceive the Soviets buying grain and to predict the amount of grain they were going to buy. We did not feel that that was sufficient cause to predict the lower harvest because they may well have either been taking advantage of the price as storing grain for the future. But the fact that there was not a precipitant rise, there was not a

precipitant change in the price of grain once Brezhnev made his announcement was indicative of the fact that the grain market knew that they were in the market for grain.

Question: Now this is a very difficult question to follow up with but I think it requires an answer no matter how speculative that answer may be. Our ability to approach an estimate of Soviet food production in any given year, now is added substantially by reconnaissance capability. To what extent human intelligence plays a role in that I certainly am in no position to know. The technical means of estimating such activities as food production were obviously deficient. I believe there is now to be a fairly sizable cut in the staff of the Agency devoted to human intelligence. Are we in the process of sacrificing a capability essential to supplement the scientific and technological means if we are indeed to rescue these occasional failures?

Answer: No we are not shifting the emphasis on human intelligence to technical or vice versa. They are still absolutely essentially complementary and I will say, if anything, the need for human intelligence is increasing. The reductions which I have ordered in the Central Intelligence Agency's human collection effort are all being taken in Headquarters. They are all fat - they are all overhead. They are not intended to reduce the cutting edge of the people out in the field. It was my firm conviction when

I was told by the Agency people shortly after arriving there that we were overstaffed that when you have capable, dedicated, ambitious young people that we are fortunate to have in the Central Intelligence Agency; people of as high a caliber as I think you will find in any organization, you cannot overmanage and underutilize them and motivate them to stay. I am trying to build for you a Central Intelligence Agency not just for 1978 or 1988 or 1998 and I must motivate those young people.

Question: Admiral Turner, in the meantime you do seem to have a morale problem . . .

Answer: That's a questionable assumption . . .

Question:feel would play a significant role. If there intelligent officers and in fact the sensitive concealment of the traditional instruments in intelligence in our kind of open society. Deception is a part and concealment very difficult. Now is it possible we are in fact missing some of these estimates as a result of an effective use of disinformation which we are absorbing?

Answer: There is no way I can positively state that we are not being taken in. I would only say that we do make strenuous efforts to check that and in fact in this grain situation we had question about some of the data we were receiving. We have developed several models each of which is dependent on different kinds and quantities of data and I think what happened in the long run is because

some of the data was suspect because we were concerned about what you were saying, we picked the wrong model this year.

Question: Admiral Turner, this grain problem does, of course, raise questions on the effectiveness of satellite surveillance, another question was raised not long ago, when it was discovered that discovered that

Do we have a problem in satellite surveillance.....

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Answer: It is unfortunately not our policy to discuss whether we do or do not engage in satellite surveillance. And there is good reason for that, let me say that I am confident that the sum total of technical intelligence collection systems available to us are by far superior to those of any other country. Whether they will be adequate for all forms of treaty negotiations that are going on today, is a very difficult question and a lot depends upon what the terms are when they are negotiating. we are, in my opinion, pushing thresholds which will demand closer and closer approximation in the long sight verification as opposed to (end of side A)

Question: associate with. The Soviets efforts to achieve what in the press is popularly called the death rate, the scientific means^f/disabling missiles and reconnaissance instruments, civilian or any other kind. Is there any-

thing to this? Can you say? Or is this just hogwash?

Answer: It is our opinion that the Soviets are not on the verge of what is known as a particle beam weapon to do this. The Soviets do have an extensive laser weapon program which is quite effective - behind ours but moving along nicely.

Question: I didn't assume it was because I'd been impressed by a remark which has been attributed to the Secretary of Defense Harold Brown that you are going to have to repeal two of the laws of physics in order to affect the charged particle field of a beam weapon, but the reports from Sweden do not suggest ..., they do suggest some other scientific breakthrough which does not involve charged particles that has this capability.

Answer: At this point I do not agree with the Swedish estimate.

Question: Ambassador James. The danger of terrorism has as you said grown. There remains, we hope in the distance the possibility that terrorist activities may involve more legal means than have thus far been employed. Has our ability to apply intelligence methods and techniques, especially within the United States, foreign intelligence conducted here, been weakened in any manner which reduces our ability to deal with the possibility of terrorism?

Answer: I think the answer to your question is no. But I speak really for foreign intelligence in foreign countries; the FBI handles the issue of terrorism or local police authorities inside the United States. We, however, are very active and have put a great deal of effort in the last few years to becoming knowledgeable about international terrorism and clearly we feed over to the FBI tidbits being transmitted to this country. I am proud to tell you without being able to go into detail that we have been active in almost all the major terrorist events of recent times. We have played a very constructive role and there is a very cooperative arrangement today with the principal intelligence agencies of principally western Europe and Japan of sharing information and instantly transmitting material that comes in in a case like the Lufthansa hijacking recently. Better than that, I can tell you that there have been definite instances in which United States intelligence have prevented terrorist operations in recent months.

